



**MISSOURI GAMING COMMISSION
THREE YEARS ENDED JUNE 30, 2002**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-21
March 4, 2003
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2003

The following problems were discovered as a result of an audit conducted by our office of the Missouri Gaming Commission.

The Missouri Gaming Commission (MGC) holds monthly commission meetings in a variety of locations. A review of employee expense reports determined that several employees of the MGC travel to the meeting locations the day before the actual meeting. Those MGC staff traveling the day before a commission meeting incur hotel and meal costs that appear to be unnecessary. The hotel and meal costs incurred the day before the meeting totaled \$33,163. The MGC indicated that staff travels the day before a commission meeting for various reasons including: avoiding an early departure on the day of the meeting, having other MGC business in the area, and needing to set-up for the commission meetings.

Three invoices reviewed, totaling \$13,117, were paid without adequate supporting documentation. These three invoices were for training, covert operations, and for Missouri-owned horse racing expenditures. The invoices did not include support for covert operation expenditures or adequate documentation for whom training was provided. In addition, the horse racing invoice did not have adequate documentation to support the use of the money. Additionally, documentation for expenditures totaling \$71,369 was not available indicating approval prior to the purchase of goods or services. Adequate documentation is necessary to ensure the propriety of these expenditures.

The MGC did not solicit written bids for the following expenses:

- \$9,075 for lodging for Simulated Excursion/Commission Meeting.
- \$6,897 for lodging for Basic Gaming Training.
- \$5,376 for costs associated with an Investigation/Commission Meeting.

Salaries and benefits associated with six Highway Patrol officers and a compliance auditor who worked a simulated excursion for one of the gaming facility licensees were not billed. The officers and auditor failed to indicate the time worked on the simulated excursion on their timesheets, which are used to prepare the monthly billings. The gaming facility licensee was undercharged approximately \$4,500 for the six officers and \$1,000 for the compliance auditor.

Several gaming facility licensees had not been audited in accordance with the MGC's objective to have an audit every two years. We noted that three gaming facility licensees have not been audited by the MGC in over three and a half years, and one gaming facility licensee has never received an audit since opening in June 2000. Additionally, the MGC does not review in a timely manner the corrective actions taken by the gaming facility licensees in response to internal control variations or deviations noted in the independent certified public accountant's quarterly audits.

Other concerns were noted regarding fixed assets, and during our visits to various gaming facilities.

YELLOW SHEET

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MISSOURI GAMING COMMISSION

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Bob Holden, Governor
and
Missouri Gaming Commission
and
Kevin P. Mullally, Executive Director
Missouri Gaming Commission
Jefferson City, MO 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Missouri Gaming Commission as of and for the years ended June 30, 2002, 2001, and 2000, as identified in the table of contents. These special-purpose financial statements are the responsibility of the commission's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund, and the appropriations and expenditures of the various funds of the Missouri Gaming Commission. These special-purpose financial statements are not intended to be a complete presentation of the financial position and results of operations of the various funds of the Missouri Gaming Commission.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund, and the appropriations and expenditures of the various funds of the Missouri Gaming Commission as of and for the years ended June 30, 2002, 2001, and 2000, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated August 27, 2002, on our consideration of the commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the commission's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.



Claire McCaskill
State Auditor

August 27, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattel, CPA
In-Charge Auditor:	Terrie Laswell, CPA
Audit Staff:	Tsetsegsaikhan Chadraabal Christy Marsh



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Honorable Bob Holden, Governor
and
Missouri Gaming Commission
and
Kevin P. Mullally, Executive Director
Missouri Gaming Commission
Jefferson City, MO 65102

We have audited the special-purpose financial statements of the Missouri Gaming Commission as of and for the years ended June 30, 2002, 2001, and 2000, and have issued our report thereon dated August 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Missouri Gaming Commission are free of material misstatement, we performed tests of the commission's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Missouri Gaming Commission, we considered the commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which are described in the accompanying Management Advisory Report.

This report is intended for the information and use of the management of the Missouri Gaming Commission and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.



Claire McCaskill
State Auditor

August 27, 2002 (fieldwork completion date)

Financial Statements

Exhibit A-1

MISSOURI GAMING COMMISSION
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2002

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 48,607,526	0	0	48,607,526
Licenses, Penalties, and Fees	1,890,568	0	0	1,890,568
Reimbursement Payments	7,037,467	0	0	7,037,467
Interest	211,013	0	2,932	213,945
Other	9,358	0	0	9,358
Total Receipts	57,755,932	0	2,932	57,758,864
DISBURSEMENTS				
	13,596,846	0	0	13,596,846
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	44,159,086	0	2,932	44,162,018
OTHER FINANCING (USES)				
Appropriations exercised by other state agencies	(1,994,579)	0	(39)	(1,994,618)
Transfers to Gaming Commission Fund	0	(2,537)	0	(2,537)
Transfers to Veterans' Commission Capital Improvement Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri National Guard Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri College Guarantee Fund	(4,500,000)	0	0	(4,500,000)
Transfers to Early Childhood Development Education and Care Fund	(31,746,595)	0	0	(31,746,595)
Transfers to Compulsive Gamblers Fund	(398,074)	0	0	(398,074)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)				
	(480,162)	(2,537)	2,893	(479,806)
CASH AND INVESTMENTS, JULY 1	4,690,850	2,537	78,342	4,771,729
CASH AND INVESTMENTS, JUNE 30	\$ 4,210,688	0	81,235	4,291,923

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

MISSOURI GAMING COMMISSION
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2001

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 46,984,700	0	0	46,984,700
Licenses, Penalties, and Fees	1,878,060	11,225	0	1,889,285
Reimbursement Payments	6,261,393	0	0	6,261,393
Interest	463,549	1,220	4,583	469,352
Other	39,737	0	0	39,737
Total Receipts	55,627,439	12,445	4,583	55,644,467
DISBURSEMENTS	13,526,416	26,048	3,000	13,555,464
RECEIPTS OVER (UNDER) DISBURSEMENTS	42,101,023	(13,603)	1,583	69,199,931
OTHER FINANCING (USES)				
Appropriations exercised by other state agencies	(1,660,835)	(1,254)	(55)	(1,662,144)
Transfers to Veterans' Commission Capital Improvement Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri National Guard Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri College Guarantee Fund	(6,000,000)	0	0	(6,000,000)
Transfers to Early Childhood Development Education and Care Fund	(30,538,114)	0	0	(30,538,114)
Transfers to Compulsive Gamblers Fund	(46,612)	0	0	(46,612)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)	(2,144,538)	(14,857)	1,528	24,953,061
CASH AND INVESTMENTS, JULY 1	6,835,388	17,394	76,814	6,929,596
CASH AND INVESTMENTS, JUNE 30	\$ 4,690,850	2,537	78,342	31,882,657

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

MISSOURI GAMING COMMISSION
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 2000

	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund	Total (Memorandum Only)
RECEIPTS				
Admissions	\$ 49,206,860	0	0	49,206,860
Licenses, Penalties, and Fees	2,203,684	71,890	0	2,275,574
Reimbursement Payments	6,514,748	0	0	6,514,748
Interest	900,887	7,365	4,175	912,427
Other	2,930	0	0	2,930
Total Receipts	58,829,109	79,255	4,175	58,912,539
DISBURSEMENTS				
	12,552,838	63,553	1,500	12,617,891
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	46,276,271	15,702	2,675	46,294,648
OTHER FINANCING (USES)				
Appropriations and transfers exercised by other state agencies	(2,419,315)	(88,112)	(99)	(2,507,526)
Transfers to Veterans' Commission Capital Improvement Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri National Guard Trust Fund	(3,000,000)	0	0	(3,000,000)
Transfers to Missouri College Guarantee Fund	(4,500,000)	0	0	(4,500,000)
Transfers to Early Childhood Development Education and Care Fund	(34,417,893)	0	0	(34,417,893)
RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER (USES)				
	(1,060,937)	(72,410)	2,576	(1,130,771)
CASH AND INVESTMENTS, JULY 1				
	7,896,325	89,804	74,238	8,060,367
CASH AND INVESTMENTS, JUNE 30				
	\$ 6,835,388	17,394	76,814	6,929,596

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

MISSOURI GAMING COMMISSION
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,								
	2002			2001			2000		
	Appropriation	Expenditures	Lapsed Balances	Appropriation	Expenditures	Lapsed Balances	Appropriation	Expenditures	Lapsed Balances
COMPULSIVE GAMBLER FUND									
Gaming Equipment & Expense	\$ 40,000	34,080	5,920	0	0	0	0	0	0
Total Compulsive Gambler Fund	40,000	34,080	5,920	0	0	0	0	0	0
GAMING COMMISSION BINGO FUND									
Gaming & Bingo	0	0	0	84,500	19,767	64,733	100,000	69,398	30,602
Total Gaming Commission Bingo Fund	0	0	0	84,500	19,767	64,733	100,000	69,398	30,602
GAMING COMMISSION FUND									
Gaming Commission-Highway Patrol	2,968,728	2,217,119	751,609	2,436,347	2,234,730	201,617	2,688,884	1,867,763	821,121
Gaming Commission-Personal Service	2,782,330	2,031,619	750,711	2,024,485	1,949,529	74,956	2,253,002	1,523,478	729,524
Gaming Commission - Equipment & Expense	186,398	185,500	898	411,862	285,201	126,661	435,882	344,285	91,597
Gaming Commission Refunds	100,000	0	100,000	100,000	1,030	98,970	100,000	0	100,000
Gaming & Bingo Personal Service	10,825,279	8,158,142	2,667,137	10,421,779	7,844,171	2,577,608	10,415,338	7,533,710	2,881,628
Gaming & Bingo Equipment & Expense	2,415,568	1,392,459	1,023,109	2,294,417	1,315,003	979,414	2,157,963	1,722,530	435,433
Gaming Commission Lease and Building Expenses	815,413	378,551	436,862	359,682	359,100	582	359,682	295,271	64,411
Total Gaming Commission Fund	17,124,988	12,146,271	4,978,717	15,612,225	11,754,034	3,858,191	15,721,867	11,419,274	4,302,593
MISSOURI BREEDERS FUND	\$								
Horse Racing Breeders	5,000	0	5,000	5,000	3,000	2,000	5,000	1,500	3,500
Total Missouri Breeders Fund	5,000	0	5,000	5,000	3,000	2,000	5,000	1,500	3,500
Total All Funds	17,169,988	12,180,351	4,989,637	15,701,725	11,776,801	3,924,924	15,826,867	11,490,172	4,336,695

The accompanying Notes to the Financial Statements are an integral part of this statement.

* Biennial appropriation

Supplementary Data

Schedule 1

MISSOURI GAMING COMMISSION
 COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,		
	2002	2001	2000
Personal service	\$ 10,189,761	9,793,700	9,057,188
Refunds	0	1,030	0
Travel and vehicle expense	245,236	223,560	257,306
Supplies and maintenance expense	185,590	138,463	140,905
Office and specific use equipment	115,811	57,914	132,398
Physical plant expenses	493,770	438,980	435,608
Data processing expense and equipment	416,396	453,443	473,221
Professional services	336,654	351,291	625,325
Other expenses	197,133	318,420	368,221
Total Expenditures	\$ 12,180,351	11,776,801	11,490,172

The accompanying Notes to the Supplementary Data are an integral part of this statement.

Schedule 2

MISSOURI GAMING COMMISSION
COMPARTIVE STATEMENT OF CHANGES IN GENERAL FIXED ASSETS

BALANCE, JUNE 30, 1999	\$	1,211,623
Additions		280,396
Disposition		(87,091)
Adjustments		1,473
BALANCE, JUNE 30, 2000		<u>1,406,401</u>
Additions		138,813
Disposition		(78,044)
Adjustments		(358,642)
BALANCE, JUNE 30, 2001		<u>1,108,528</u>
Additions		179,725
Disposition		(99,479)
Adjustments		33,051
BALANCE, JUNE 30, 2002		<u><u>1,221,825</u></u>

The accompanying Notes to the Supplementary Data are an integral part of this statement.

Schedule 3

MISSOURI GAMING COMMISSION
COMPARATIVE STATEMENT OF GAMING RECEIPTS AND DISTRIBUTIONS

Receipts	Years Ended June 30,								
	2002	2001	2000	1999	1998	1997	1996	1995	1994
Gaming Proceeds	\$ 241,351,381	208,682,466	198,285,123	178,610,232	160,025,256	129,610,752	106,494,309	61,909,052	1,032,479
Admissions	97,216,405	93,982,487	98,264,155	81,388,018	79,027,303	63,817,399	44,597,666	25,183,325	539,234
Bingo Taxes	3,187,204	3,514,132	3,849,044	3,927,639	4,008,145	4,314,178	4,400,745	5,995,866	N/A
Licenses, Penalties, and Fees	1,890,568	1,889,283	2,275,574	2,727,100	2,992,421	3,316,721	2,727,271	2,625,582	2,784,617
Reimbursement Payments	7,037,588	6,261,394	6,514,748	7,787,748	5,978,844	5,456,038	4,302,031	1,853,126	0
Interest	559,328	1,121,941	1,585,079	3,187,691	3,071,046	2,173,975	1,305,050	570,596	30,751
Other	(826)	30,360	80,326	4,515	517,382	468,946	336,678	944,569	3,003,648
Total	\$ 351,241,648	315,482,063	310,854,049	277,632,943	255,620,397	209,158,009	164,163,750	99,082,116	7,390,729
Distributions									
Gaming Commission Fund	57,753,859	55,624,606	58,831,722	53,640,474	51,396,659	42,747,410	30,441,783	18,139,642	6,088,272
Gaming Proceeds for Education Fund	217,216,243	187,814,219	178,456,611	160,749,209	144,022,730	116,649,677	95,844,878	55,718,147	929,232
Home Dock Cities	72,861,360	68,113,742	69,178,029	58,733,523	55,699,780	45,014,350	33,065,885	18,831,919	373,225
Gaming Commission Bingo Fund	N/A	12,446	79,256	93,223	113,077	127,261	127,026	138,704	N/A
Bingo Proceeds for Education Fund	3,407,255	3,912,467	4,304,256	4,412,395	4,384,175	4,615,579	4,684,178	6,253,704	N/A
Missouri Breeder's Fund	2,931	4,583	4,175	4,119	3,976	3,732	N/A	N/A	N/A
Total	\$ 351,241,648	315,482,063	310,854,049	277,632,943	255,620,397	209,158,009	164,163,750	99,082,116	7,390,729

The accompanying Notes to the Supplementary Data are an integral part of this statement.

Notes to the Financial Statements and Supplementary Data

MISSOURI GAMING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Missouri Gaming Commission.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund. Appropriations from these funds are expended by or for the commission and other state agencies (See Note 3) for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Appropriations, presented in Exhibit B, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the commission's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the commission and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Appropriations and Expenditures, Exhibit B, is presented on the state's legal budgetary basis of accounting. For the year ended June 30, 2000, expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ended August 31. The authority to expend appropriations ended with the close of the lapse period. For years ended on or after June 30, 2001, expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, both before and after June 30, 2000, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The cash basis of accounting and the budgetary basis of accounting differ from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The commission administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

Gaming Commission Fund: As provided by Section 313.835, RSMo 2000, this fund receives license fees, penalties, administrative fees, reimbursements for services provided, and admission fees authorized under Sections 313.800 to 313.850, RSMo 2000. Appropriations from this fund authorize disbursements for administrative costs incurred by the Missouri Gaming Commission. In addition, appropriations of up to \$500,000 per year may be used to provide matching funds to cities and counties that have demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes. Beginning July 1, 2001, as provided by Section 313.835, RSMo 2000, appropriations up to one cent of the admission fee are being transferred to the Compulsive Gamblers Fund as provided in Section 313.820, RSMo 2000.

Gaming Commission Bingo Fund: As provided by Section 313.008, RSMo 2000, this fund receives license fees, penalties, and administrative fees authorized under Section 313.005 to 313.085, RSMo 2000. Appropriations from this fund authorize disbursement for administrative costs incurred by the Missouri Gaming Commission relating to the regulation of bingo operations. In addition, all unobligated funds in the gaming commission bingo fund on August 28, 2000, shall be transferred to the Gaming Commission Fund and the Gaming Commission Bingo Fund shall be abolished on June 30, 2001.

Missouri Breeders Fund: As provided by Section 313.720, RSMo 2000, this fund receives registration fees, gifts or bequests, and such funds as the General Assembly authorized under Section 313.720. Appropriations from this fund authorize disbursements for administrative costs incurred by the Missouri Gaming Commission and incentives for breeders and owners of Missouri bred horses.

D. Employee Fringe Benefits

Missouri State Highway Patrol employees assigned to the Missouri Gaming Commission and paid from the Gaming Commission Fund are covered by the Highway Employee's and Highway Patrol Retirement System (HEHPRS) (a noncontributory plan) and the social security system and may participate in the Missouri Highway and Transportation Department and Missouri State Highway Patrol's medical benefit and life insurance plan and the state's deferred compensation and cafeteria plans. All other commission employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a monthly state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least one year. Fringe benefits related to salaries of Highway Patrol employees at the Gaming Commission are appropriated and thus are presented in the financial statement at Exhibit B.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation incentive amount. Fringe benefits related to salaries other than Highway Patrol employees at the Gaming Commission are not appropriated and thus are not presented in the financial statement at Exhibit B.

2. Cash and Investments

The balances of the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund are pooled with other state funds and invested by the state treasurer.

3. Appropriations Exercised by Other State Agencies

Various state agencies receive direct appropriations and transfers from the Gaming Commission Fund, Gaming Commission Bingo Fund, and Missouri Breeders Fund to pay costs incurred for the purposes of those funds. The agencies receiving and using these appropriations and transfers were the: Attorney General's Office, the Department of Public Safety-Missouri State Highway Patrol, the State Auditor's Office, the Department of Social Services-Division of Youth Services, the Department of Revenue, and the Office of Administration.

4. Transfers of Gaming Commission Fund Remaining Net Proceeds

Prior to fiscal year 1999, the remaining net proceeds in the Gaming Commission Fund were transferred to the Veterans' Commission Capital Improvement Trust Fund, except that the first \$500,000 of these proceeds were appropriated to the Department of Social Services, Division of Youth Services, to provide matching funds to cities and counties that had demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes.

Beginning with fiscal year 1999, the remaining net proceeds of \$3,000,000 are transferred each to the Veterans' Commission Capital Improvement Trust Fund, Missouri National Guard Trust Fund, and Missouri College Guarantee Fund. In addition, \$500,000 is appropriated to the Department of Social Services, Division of Youth Services, to provide matching funds to cities and counties that have demonstrated a need for funding community neighborhood organization programs for the homeless and to deter gang-related violence and crimes. After these transfers and appropriation, any remaining net proceeds, subject to appropriation, are transferred to the Early Childhood Development Education and Care Fund, except for \$1,500,000, which is transferred annually, subject to appropriation, to the Missouri College Guarantee Fund when the remaining net proceeds reaches \$27,000,000.

Beginning with fiscal year 2002, a portion of the admission fee, not to exceed one cent was appropriated to the Compulsive Gamblers Fund as provided in Section 313.820.

The transfer made to the Missouri College Guarantee Fund in fiscal year 2001 included \$1,500,000 of remaining net proceeds collected during fiscal year 2000 and the transfer made in fiscal year 2000 included \$1,500,000 of remaining net proceeds collected during fiscal year 1999. These transfers were pursuant to the laws applicable to fiscal year 2000 and 1999 collections.

The transfers presented in the financial statements were made pursuant to the provisions in Section 313.835, RSMo 2000.

5. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit B as follows:

<u>Year Ended June 30, 2002</u>			
	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund
DISBURSEMENTS PER EXHIBIT A	\$ 13,596,846	0	0
Fringe benefits	(1,448,280)	0	0
Lapse period expenditures:			
2002	0	0	0
2001	0	0	0
Accounts payable, June 30:			
2002	303	0	0
2001	(2,598)	0	0
EXPENDITURES PER EXHIBIT B	<u>\$ 12,146,271</u>	<u>0</u>	<u>0</u>

<u>Year Ended June 30, 2001</u>			
	Gaming Commission Fund	Gaming Commission Bingo Fund	Missouri Breeders Fund
DISBURSEMENTS PER EXHIBIT A	\$ 13,526,416	26,048	3,000
Fringe benefits	(1,300,565)	0	0
Lapse period expenditures:			
2001	0	0	0
2000	(400,290)	(6,202)	0
Accounts payable, June 30:			
2001	2,598	0	0
2000	(74,125)	(79)	0
EXPENDITURES PER EXHIBIT B	<u>\$ 11,754,034</u>	<u>19,767</u>	<u>3,000</u>

	Year Ended June 30, 2000		
	Gaming		
	Gaming Commission Fund	Commission Bingo Fund	Missouri Breeders Fund
	Fund	Fund	Fund
DISBURSEMENTS PER EXHIBIT A	\$ 12,552,838	63,553	1,500
Fringe benefits	(1,134,603)	0	0
Lapse period expenditures:			
2000	400,290	6,202	0
1999	(471,129)	(436)	0
Accounts payable, June 30:			
2000	74,125	79	0
1999	(2,247)	0	0
EXPENDITURES PER EXHIBIT B	\$ 11,419,274	69,398	1,500

Notes to the Supplementary Data:

6. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group and were not depreciated in fiscal years 2001 and 2000. Beginning in fiscal year 2002, fixed assets were depreciated using the straight-line method over the assets useful life. The commission's general fixed assets are equipment and furniture.

7. Distributions

Distributions represent distributions of receipts for the fiscal year, a portion of which is disbursed after the end of the fiscal year.

8. Reconciliation of Gaming Commission Fund Receipts to Distributions to the Gaming Commission Fund

Receipts on Exhibit A reconcile to distributions on Schedule 3 as follows:

	<u>Year Ended June 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
GAMING COMMISSION FUND RECEIPTS			
PER EXHIBIT A	\$ 57,755,932	55,627,439	58,829,109
Interest Receivable, June 30:			
2002	85		
2001	(2,158)	2,158	
2000		(4,991)	4,991
1999			(2,378)
DISTRIBUTIONS TO THE GAMING COMMISSION			
FUND PER SCHEDULE 3	\$ <u>57,753,859</u>	<u>55,624,606</u>	<u>58,831,722</u>

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

MISSOURI GAMING COMMISSION
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the special-purpose financial statements of the Missouri Gaming Commission as of and for the years ended June 30, 2002, 2001, and 2000 and have issued our report thereon dated August 27, 2002.

The following Management Advisory Report presents our findings arising from our audit of the commission's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered all-inclusive of areas needing improvement.

1.	Commission Meetings
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Our review of the expenses associated with the commission meetings held outside of the Jefferson City area noted some hotel and meal costs that appeared to be unnecessary. The Missouri Gaming Commission (MGC) holds monthly commission meetings. The location of the meetings varies depending on the issues that will be addressed. Since the meetings are open to the public, the MGC attempts to have the meetings in a location that will accommodate the public. For example, if a licensee is due to be relicensed and a presentation will be made by those associated with the licensee, the meeting will be held near the licensee's location. The meetings last approximately three to four hours, depending on the issues the board addresses, and usually start at 9 or 10 AM.

A review of employee expense reports determined that several employees of the MGC travel to the meeting locations the day before the actual meeting. Those MGC staff traveling the day before a commission meeting incur hotel and meal costs that appear to be unnecessary. We scheduled the expenses incurred the day before each of the out-of-town commission meetings for fiscal years 2002, 2001 and 2000 and noted the following:

	Fiscal Year 2002	Fiscal Year 2001	Fiscal Year 2000	Totals
No. of Out-of Town Meetings	9	4	9	
No. of Meetings Starting at 9AM	4	2	7	
No. of Meetings Starting at 10 AM	5	1	2	
No. of Meetings Starting at 3 PM	0	1	0	
Range of Employees Traveling the Day Before	7 to 23	5 to 15	7 to 14	
Range for the Hotel Cost	\$55 to \$97	\$64 to \$85	\$74 to \$95	
Total Hotel Cost Incurred Day Before Meeting	\$12,125	\$3,531	\$11,409	\$27,065
Total Food Cost Incurred Day Before Meeting	\$ 2,197	\$ 766	\$ 3,135	\$ 6,098
Total Cost Incurred the Day Before a Meeting	\$14,322	\$4,297	\$14,544	\$33,163

As noted above, the hotel and meal costs incurred the day before the meeting totaled \$33,163. The MGC indicated that staff travels the day before a commission meeting for various reasons.

Some of the reasons given were:

- To avoid an early departure on the day of the meeting.
- Staff have other MGC business in the area.
- Staff needed to set-up for the commission meetings.

Since the meetings usually do not start until 9 or 10 AM and usually do not last all day these costs do not appear necessary. To eliminate any unnecessary costs and ensure the efficient use of staff time and gaming resources, the commission should discontinue the practice of allowing employees to travel to commission meetings the day before the actual event, unless such travel is necessary to conduct other MGC business.

The food costs noted above include \$1,342 for three dinner receptions. We noted during fiscal year 2000 that three dinner receptions were held the night before a commission meeting. These receptions were held at the Country Club of Missouri in Columbia, MO, the Hereford House in Kansas City, MO, and the Missouri Athletic Club in St. Louis, MO. The MGC indicated the dinner receptions were held for the following reasons:

- To welcome a new commission member to the board.
- To honor out-going commission members.
- To discuss gaming issues and concerns.

Regular commission meetings were held the following day. Since the purposes of the receptions could have been a part of the commission meetings, the costs associated with the dinner receptions do not appear necessary.

WE RECOMMEND the MGC discontinue holding dinner receptions and allowing employees to travel to commission meetings the day before the actual meeting, unless such travel is necessary to conduct other MGC business.

AUDITEE'S RESPONSE

MGC concurs with the State Auditor's Office (SAO) on the general business principle that MGC employees should only travel to commission meetings the day before the actual meeting when it is necessary for commission business. MGC agrees that it would be a poor business practice for an employee to travel the night before a commission meeting unless there is a valid business purpose.

Approximately 40 percent of the commission's employees are located outside of the Jefferson City office. Furthermore, 89 percent of the revenue from riverboat gambling is generated from Kansas City and St. Louis, the two most common locations for commission meetings away from Jefferson City. Thus, it should be readily apparent that central office staff is regularly required to conduct business in these locations. It is only logical that MGC staff would choose to cluster such necessary business around commission meetings that are held in these locations in order to accommodate the public and for simple efficiency.

In order to demonstrate compliance with this policy, MGC will augment its written travel policies to require that those traveling to commission meetings the day before the meeting to document their business purpose.

Over the course of three years, the commission had three dinners involving groups of between thirteen to twenty people. Each of these dinner meetings had a valid business purpose and more importantly, each was in full compliance with MGC's and the State of Missouri's travel regulations. No special accommodations were necessary and meal expenses per individual were no more than if the employees had gone out to dinner on their own. MGC does not believe these dinner meetings were unreasonable. However, in the future MGC agrees to fully document the necessity and business purpose of any such meeting to satisfy the SAO's concerns.

2.

Fixed Assets

Improvements are needed in the MGC's fixed asset records and procedures. At June 30, 2002, the MGC had approximately \$1.2 million in general fixed assets.

- A. Reconciliations between the annual physical inventory and the fixed assets records are not performed. The fiscal year 2001 physical inventory was performed in May 2001 and not reconciled to the fixed asset records. In addition, a physical inventory was not performed in fiscal year 2002 as required by the Code of State Regulations at 15 CSR 40-2.031.

Performing reconciliations between the physical inventory and the detailed fixed assets records would provide assurance that fixed asset items purchased and disposed of are properly recorded in the property records and controlled. In addition, annual physical inventories are necessary to establish proper accountability over fixed assets.

- B. The MGC's fixed asset records are not complete or accurate. The following areas of concern were noted:

1. The MGC did not record fixed asset additions or dispositions on the fixed asset records in a timely manner. We noted one instance where several items were disposed of on January 25, 2002, and not properly removed from the fixed asset records until we brought this to MGC's attention. In addition, we noted seven of twenty-seven assets (24 percent) observed which were not recorded in the fixed asset records. Five of the seven assets were computers totaling \$16,215 that were purchased in March 2000 and June 2001.

The failure to properly record and reconcile property items reduces the control and accountability over fixed assets and increases the potential for loss, theft, or misuse of assets.

2. The MGC's fixed asset records were not always accurate as to the asset's description, physical location, or individual assignment. We noted that forty-two of the ninety-four assets (45 percent) tested had problems with either the asset's description, the location, or the individual assignment. In addition, we noted one instance where an asset on the fixed asset listing could not be located. The MGC indicated that the item was surplus; however, no documentation could be provided to support this statement.

Accurate fixed asset records are necessary to properly safeguard assets. The Code of State Regulations, 15 CSR 40-2.031, requires state agencies to maintain adequate fixed asset records that include identification number; description of the item including name; acquisition cost; date of acquisition; estimated useful life at date of acquisition; physical location; and method and date of disposition for each fixed asset.

- C. Several fixed assets are not properly tagged. The Code of State Regulations, at 15 CSR 40-2.031, requires each fixed asset item to be identified by a sequential number system including a numbered tag. Property control tags should be affixed to all fixed asset items to help improve accountability and to ensure that assets are properly identified as department property.
- D. Fixed asset duties are not adequately segregated. The same two individuals perform the physical inventory and maintain the records of fixed assets. To provide internal controls and to adequately safeguard assets from theft or misuse, the physical inventory should be performed by an individual independent of the custodial and record keeping functions.

WE RECOMMEND the MGC:

- A. Conduct an annual physical inventory of the general fixed assets and reconcile the physical inventory to the fixed asset records. Documentation of the physical inventory should be retained to show compliance with state regulations.
- B.1. Ensure fixed asset additions and deletions are recorded to the fixed asset records in a timely manner and periodically reconcile fixed asset additions and deletions to records of purchases and disposals.
 2. Ensure accurate fixed asset records are maintained.
- C. Ensure all fixed assets are properly tagged or identified as MGC property in accordance with state regulations.
- D. Ensure an individual independent of the record keeping function performs the physical inventory.

AUDITEE'S RESPONSE

- A. *MGC concurs with the recommendation. A physical inventory will be conducted annually.*
- B.1. *Procedures are in place to timely document and tag inventory as it is received. In addition, asset disposal procedures have now been implemented to more closely supervise, document, and record inventory as it is sent to the Division of Surplus Property.*
- B.2. *MGC concurs with the recommendation. The account clerk will update the fixed asset records as the physical inventory documentation is reconciled with the fixed asset records.*
- C. *MGC implemented procedures during fiscal year 2002 to document and tag inventory in a timely manner as it is received.*
- D. *MGC will ensure that the person(s) responsible for maintaining the fixed asset records will not perform the physical inventory.*

3.	Expenditures
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A. In three of sixty invoices reviewed, totaling \$13,117, invoices were paid without adequate supporting documentation. These three invoices were for training, covert operations, and for Missouri-owned horse racing expenditures. The invoices did not include support for covert operation expenditures or adequate documentation for whom training was provided. In addition, the horse racing invoice did not have adequate documentation to support the use of the money. Adequate documentation is necessary to ensure the propriety of these expenditures.

B. In three of ten invoices reviewed, written bids were not solicited by the MGC. The MGC did not solicit written bids for the following expenses:

Lodging for Simulated Excursion/Commission Meeting	\$ 9,075
Lodging for Basic Gaming Training	6,897
Costs associated with	
Investigation/Commission Meeting	5,376

Section 34.040, RSMo 2000, requires all purchases in excess of \$3,000 to be competitively bid.

Formal bidding procedures for major purchases provides a framework for economical management of the MGC resources and helps ensure the MGC receives fair value by contracting with the lowest and best bidders. In addition, competitive bidding ensures all interested parties are given an equal opportunity to participate in the state's business. Written documentation of bids should always

be retained as evidence to demonstrate the MGC's compliance with the state's competitive bidding requirements.

- C. In eighteen of sixty invoices reviewed, invoices were paid without documentation of prior approval. Documentation for expenditures totaling \$71,369 was not available indicating approval prior to the purchase of goods or services. For example, the MGC purchased surveillance system equipment totaling \$19,108 and a Black Jack gaming table and high back gaming chairs totaling \$2,050 for the gaming room in which prior approval was not documented.

Failure to document purchase approval prior to initiating purchases of goods or services limits the commission's ability to monitor, control, and track expenditures.

WE RECOMMEND the MGC:

- A. Require adequate documentation for all expenditures.
- B. Solicit written bids for all purchases in accordance with state law.
- C. Ensure prior approval is documented prior to purchases of goods and services.

AUDITEE'S RESPONSE

- A. *MGC agrees that proper documentation is required for payment of expenditures. The invoices mentioned in this finding did have documentation to support their payments, however, in the future we will ensure that more "adequate" documentation is provided.*
- B. *MGC solicits bids when making purchases, as required by law. The invoices mentioned were for lodging for large groups and phone calls were made to solicit rates. However, staff did not adequately document the calls in writing. MGC has already initiated steps to ensure that solicitation is documented in writing for all future lodging for large groups.*
- C. *MGC agrees. Prior approval was given for the purchases mentioned, however, it was verbal and not written. MGC will ensure that prior approval is in writing for all future purchases.*

The MGC does not properly bill the gaming facility licensees for the full costs of services provided. The MGC bills the licensees monthly for the reimbursement of costs incurred. The gaming facility licensees are required by 11 CSR 45-7.145 to reimburse the MGC on a monthly basis for the full cost of services provided for the supervision or regulation of the licensees. For example, the members of the Missouri State Highway Patrol perform duties as Gaming Commission Agents by acting as enforcement officers on the gaming facilities. The MGC bills the gaming facility licensees for the full costs of the salaries, fringe benefits, meals, communication costs, mileage, and other applicable expenses incurred. Our review of the MGC billings to the gaming facility licensees noted the following areas where improvements are needed:

- Salary and benefits associated with six Highway Patrol officers and a compliance auditor who worked a simulated excursion for one of the gaming facility licensees were not properly billed. The officers and auditor failed to indicate the time worked on the simulated excursion on their activity record (timesheet), which is used to prepare the monthly billings. The gaming facility licensee was undercharged approximately \$4,500 for the six officers and \$1,000 for the compliance auditor. The \$4,500 was improperly billed to various other gaming facility licensees where the six Highway Patrol officers normally perform their enforcement duties; thus, the state was reimbursed for the officer's salary and benefits. However, the state was not reimbursed for the compliance auditor's salary and benefits.
- The salary of one Highway Patrol officer was incorrectly charged to a gaming facility licensee. The officer's salary was charged to the gaming facility licensee at an old rate, resulting in an undercharge of approximately \$400.
- We also noted some minor costs related to meals and pagers that were not billed.

To ensure all cost incurred for services provided to the gaming facility licensees are reimbursed, the MGC should review the policies and procedures that caused the gaming facility licensees to be undercharged.

WE RECOMMEND the MGC ensure the licensees are properly billed for all costs associated with services provided. In addition, the MGC should ensure the applicable licensees are billed for any unpaid amounts.

AUDITEE'S RESPONSE

MGC agrees and the adjustments have been made and properly billed.

As part of our review of the MGC, we visited four of the gaming facilities to review operations and procedures. A review of the gaming device (slot machines) inventory listing was performed along with testing the computer chips in several slot machines. Our review noted the following areas in need of improvement:

- While testing the computer chips in the slot machines, we noted several computer chips that were not on the MGC's approved computer chip listing. These computer chips had been revoked by the MGC for various reasons. One facility operator had computer chips that had been revoked on January 29, 2002, by the MGC and should have been replaced by March 15, 2002. These revoked chips were replaced in June 2002, after we brought this to the MGC's attention. Another facility operator had computer chips that had been revoked on November 26, 2001, and should have been replaced by December 26, 2001. These revoked chips were not replaced until July 9, 2002, more than six months after they were required to be removed.

The MGC indicated that it is the facility operator's responsibility to replace revoked computer chips in the time allowed. In addition, the MGC stated that they perform spot checks at each of the facility operations to ensure the facilities are in compliance. We determined there had been no spot checks performed by the MGC since January 2002 and very few done in the months prior to January 2002. As regulators of the facility operations in the state of Missouri, it is the MGC's responsibility to ensure the facility operations are in compliance with the MGC regulations.

- At one of the facilities visited, we noted several of the slot machines had loose tokens inside the slot machines. According to the facility operator's internal control system (ICS) requirements and the MGC's Minimum Internal Control Standards (MICS) Section E-27, loose tokens are to be removed from the slot machines (swept) at least once a month. Our review of the facility operator's slot machine sweep documentation noted that several of the slot machines tested had not been swept as required. The failure to properly sweep the machines as required could result in incorrect reporting and the late payment of gaming revenues to the state.

WE RECOMMEND the MGC ensure all facility operations are in compliance with MGC regulations. In addition, the MGC should investigate and correct the problems that allowed the facilities to operate with revoked computer chips and the failure to sweep the slot machines as required.

AUDITEE'S RESPONSE

While the MGC agrees with the factual basis for this finding, it is not in total agreement with the Auditor's emphasis relative to the significance of this issue. MGC's response to the two concerns raised in this finding are as follows.

MGC has devised a rather sophisticated internet based system that, if used properly, should preclude the presence of revoked software in the devices currently in play in Missouri, to a great extent. There are in excess of 17,000 legal slot devices in play within Missouri, each relying on a computer chip to regulate its play. This number is deceiving as these devices are changed, reconfigured or modified on a very regular basis in response to consumer preferences and demand. MGC has established a website listing the current version of all approved software as well as listing all revoked software. There are numerous recalls of software placed on this website by manufacturers and testing laboratories on a regular basis. It is incumbent that casinos in Missouri download this information on a regular basis and respond to advisories or revocations as indicated in the website entry. It is equally incumbent that MGC, as a regulator, monitor this process. During the past year MGC added a second Electronic Gaming Device (EGD) technician to assist in verifying this process among many other responsibilities. As a matter of fact, the bulk of the responsibility for monitoring this process belongs to MGC boat agents. MGC is significantly understaffed in boat agents and must rely on self reporting and monitoring to insure that revoked software is detected and removed. MGC's reliance on this technological approach to this problem is not perfect but is necessary in the present fiscal climate. MGC intends to diligently pursue its responsibility in monitoring this issue, however; just as traffic officers will never preclude all traffic violations from occurring, MGC will never be able to preclude all violations of rules and regulations in this area.

Slot machines are very sophisticated devices on the top end and quite the opposite on the bottom side. Chutes to divert the flow of tokens into a bucket or hopper may be fabricated from cardboard, plastic or metal. The placement of the bucket under the chute must be rather precise or tokens will miss the container. MGC requires the devices to be swept on a monthly basis to ensure that tokens are properly accounted for and taxed. On any given day, if you open enough of these devices, you will find loose tokens in the bottom, which is why we have the sweep rule. MGC efforts to monitor this process are hindered by the same manpower considerations mentioned above. MGC fully intends to continue monitoring this concern and respond appropriately when an unacceptable amount of tokens is discovered.

6. Compliance Audits

The MGC compliance audit section is responsible for monitoring the gaming facility operators to ensure the casinos are operating in accordance with the Minimum Internal Controls Standards (MICS), Code of State Regulations (CSRs), policy statement (PS) issues, and the casino's written Internal Control System (ICS). Our review noted the following areas in need of improvement:

- A. One of the objectives of the MGC's compliance audit section is to perform audits of the gaming facility licensees once every two years. The MGC compliance audit section consists of two audit teams, facility auditors, an audit manager, and a gaming enforcement manager. The audit teams perform the audits of the licensees once every two years based upon audit program procedures developed by the MGC. These audit program procedures were established by the MGC to ensure compliance with the Minimum Internal Control Standards (MICS) and 11

CSR 45 Missouri Gaming Commission Regulations. The facility auditors perform audits that focus on specialized projects, assist enforcement officers with enforcement issues, and assist the audit teams during the audit of the gaming facility licensees.

We reviewed all fifteen gaming facility licensees in operation during fiscal years 2002, 2001, and 2000 and noted that several of the gaming facility licensees had not been audited in accordance with the MGC's objective to have an audit every two years. We noted that three gaming facility licensees have not been audited by the MGC in over three and a half years. However, the MGC in fiscal year 2002 did start an audit of all three gaming facility licensees. In addition, one gaming facility licensee has never received an audit since opening in June 2000.

To ensure the licensees are adhering to the MGC's regulations, the MGC should perform audits of the licensees once every two years.

- B. The MGC does not review in a timely manner the corrective actions taken by the gaming facility licensees in response to MICS variations or deviations noted in the independent certified public accountant's quarterly audits. The MGC's regulation 11 CSR 45-8.060 requires each gaming facility licensee to be audited quarterly by an independent certified public accountant. These audits are required to include information regarding any variations or deviations from the commission approved MICS. The MICS were established by the MGC to ensure procedures are adequate for the handling of the high volume of cash by gaming facility operators and to ensure adjusted gross receipts are properly recorded.

We reviewed the independent certified public accountant's quarterly audit reports for the gaming facility licensees in operation during the fiscal years 2002, 2001, and 2000. We noted many of these reports contained numerous findings listing variations or deviations from the MICS, many of which were repeated in subsequent quarterly audit reports. For example, during the review of one gaming facility licensee we noted that the December 31, 2001 quarterly audit report contained 35 findings with 15 of those findings repeated in the subsequent quarterly audit report ending March 31, 2002. As of June 30, 2002, the MGC had not followed-up on the findings noted in these quarterly audit reports.

To ensure the licensees are adhering to the MICS established by the MGC, the MGC should follow up on the variations or deviations noted in the independent certified public accountant quarterly audit reports in a timely manner.

WE RECOMMEND the MGC:

- A. Perform audits of the gaming facility licensees once every two years.
- B. Perform and document follow up procedures for the minimum internal control standards variations or deviations noted in the independent certified public accountant quarterly audit reports of gaming facility licensees in a timely manner to ensure corrective actions are taken.

AUDITEE'S RESPONSE

A&B. MGC agrees with the factual basis for this finding. MGC is currently experiencing a tremendous turnover in its audit staff and have assigned auditors to assist in the investigation of sophisticated internal thefts on casino properties, thus reducing their availability for traditional audit responsibilities. One such investigation during this period resulted in the recovery of over \$400,000 in taxes owed to the state. The observations and recommendations made in this finding will be given every consideration as we work to maximize the use of MGC's limited and highly transient staff.

This report is intended for the information and use of the management of the Missouri Gaming Commission and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

Follow-Up on Prior Audit Findings

MISSOURI GAMING COMMISSION
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Missouri Gaming Commission (MGC) on findings in the Management Advisory Report (MAR) of our prior audit report issued for the three years ended June 30, 1999.

The prior recommendations, which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the commission should consider implementing those recommendations.

1. Auditing and Monitoring Procedures

- A. The MGC did not adequately monitor the admissions information on the Daily Tax Remittals resulting in a \$109,474 overpayment of admission taxes for a gaming boat operator.
- B. The MGC did not properly monitor Daily Tax Remittals to ensure gaming boat operators applied credit adjustments of \$40,191 for gaming taxes after the gaming boat operator incurred a negative adjusted gross receipts (AGR) on a gaming day.
- C. Credit claim forms are not processed on a timely basis. As of September 9, 1999 approximately 100 credit claims forms totaling \$507,000 from various gaming boat operators were held by the MGC.
- D.1. The MGC did not require one licensee to have a quarterly minimum internal control standards (MICS) audit.
- D.2. The MGC's compliance auditors could not provide documentation that adequate follow up audit procedures were performed to ensure corrective action was taken by licensees in response to (MICS) variations or deviations noted in the independent certified public accountant audits.

Recommendation:

The MGC:

- A. Properly monitor admissions information to ensure admission taxes paid are reasonable.
- B. Properly monitor negative AGR to ensure gaming boat operators are adjusting a subsequent day's AGR for the negative AGR amount to prevent overpayment of gaming taxes and to help avoid the credit claim form process.
- C. Process credit claim forms on a timely basis. In addition, we recommend the MGC work with the Attorney General's office to resolve credit claims forms in a timely manner.

- D.1. Ensure all licensees have a quarterly MICS audit.
- 2. Require its compliance auditors to perform and document follow up procedures for the minimum internal control standards variations or deviations noted in the independent certified public accountant audit reports of licensees to ensure corrective actions are taken.

Status:

A,B,
C&

D.1. Implemented.

D.2. Not implemented. See MAR finding number 6.

2. License Billings

Billings were not prepared and sent on a timely basis for several different types of licenses. The numerical sequence of licenses could not be verified.

Recommendation:

The MGC:

- A. Ensure billings for all types of licenses are prepared and sent on a timely basis.
- B. Ensure the completeness of the Missouri Occupational Licensing Enforcement System and the Bingo Organization licensing database by accounting for the numerical sequence of license numbers issued and maintain documentation of voided and missing license numbers.

Status:

- A. Partially implemented. We noted two instances out of twenty-one licenses reviewed in which licensees were not billed in a timely manner. Although not repeated in the current report, our recommendation remains as stated above.
- B. Implemented.

3. Supplier Licensing

- A. The MGC does not reconcile payments made by suppliers to the applicant's database system. The MGC did not bill a supplier for licensing renewal in the amount of \$5,000.
- B. Investigations for supplier licenses are not completed on a timely basis.

Recommendation:

The MGC:

- A. Perform a reconciliation of payments received from suppliers to payments posted to the supplier database to ensure suppliers have paid their appropriate fees.
- B. Complete license investigations on the nine temporary suppliers and ensure future supplier investigations are completed on a timely basis.

Status:

Implemented.

4. Boat Visits

- A. The MGC incorrectly placed a property tag on a removable portion of the slot machine.
- B. Serial numbers and property tag numbers on the gaming device inventory listing were inaccurate.
- C. One slot machine was not properly sealed with evidence tape, as required by 11 CSR 45-5.210(J).

Recommendation:

The MGC:

- A. Require the MGC property tag be placed on a part of the slot machine that is not removable.
- B. Ensure serial numbers and property tag numbers are accurately included on the gaming device inventory listings.
- C. Ensure the motherboard is properly sealed into the slot machines.

Status:

Implemented.

5. \$500 Loss Limit

The statutes as currently written do not define what constitutes a \$500 loss. Because of this lack of guidance or clarity in the law, the MGC has chosen to enforce a \$500 buy in limit. Allowing patrons to bring tokens and chips onto a gambling excursion appears to be a violation of the \$500 loss or buy in limit.

Recommendation:

The MGC discontinue the practice of allowing individuals to enter a gaming excursion with tokens or chips from previous gaming excursions to improve enforcement of the \$500 loss limit. In addition, we recommend the MGC request the legislature provide additional guidance regarding how the \$500 loss limit should be interpreted and enforced.

Status:

Not implemented. Although not repeated in the current report, our recommendation remains as stated above.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI GAMING COMMISSION
HISTORY, ORGANIZATION, AND STATISITCAL INFORMATION

The Missouri Gaming Commission was established in 1993 by the Eighty-Seventh General Assembly, as specified by Chapter 313, RSMo.

Section 313.822, RSMo 2000, provides that a tax be imposed on the adjusted gross receipts (the gross receipts from licensed gambling games and devices less the winnings paid to wagerers) at the rate of twenty percent. This section allows the home dock city or county to receive ten percent of the adjusted gross receipts tax and the remainder to be deposited in the state treasury to the credit of the "Gaming Proceeds for Education Fund." Furthermore, Article III, Section 39(d) of the Missouri Constitution requires all state revenues derived from gaming activities be appropriated solely for public institutions of elementary, secondary, and higher education.

Section 313.820, RSMo 2000, provides that an excursion boat licensee shall pay to the commission an admission fee of two dollars for each person embarking on an excursion with a ticket of admission. One dollar shall be paid to the home dock city and county while the other dollar, per Section 313.835, RSMo 2000, shall be deposited in the state treasury to the credit of the "Gaming Commission Fund." This fund is for the purpose of funding the administrative costs of the commission relating to excursion gambling boat operations, subject to appropriation. This fund also includes revenues received by the commission for license fees, administrative fees, and reimbursement by any excursion gambling boat operations for services provided by the commission.

The commission performs all duties and has all powers and responsibilities conferred and imposed upon it relating to the licensing and regulation of excursion gambling boats and the lawful operation of the game of bingo under Chapter 313, RSMo 2000. Effective August 28, 1996, the Missouri Gaming Commission became responsible for regulating horse racing under Chapter 313, RSMo 2000. Within the commission there is a Division of Gaming and a Division of Bingo. The Executive Director of the Missouri Gaming Commission is hired by the commission. Mr. Mel Fisher served as the Executive Director of the Missouri Gaming Commission from August 26, 1998 until his retirement in December 2000. Upon Mr. Fisher's retirement, Kevin Mullally began serving as the Acting Executive Director until being named Executive Director on February 21, 2001.

The Missouri Gaming Commission consists of five members appointed by the governor, with the advice and consent of the Senate. Terms of members are for three years on a staggered basis. No person shall serve as a member more than six years. The chairman is appointed by the governor.

At June 30, 2002, members of the Missouri Gaming Commission were: *

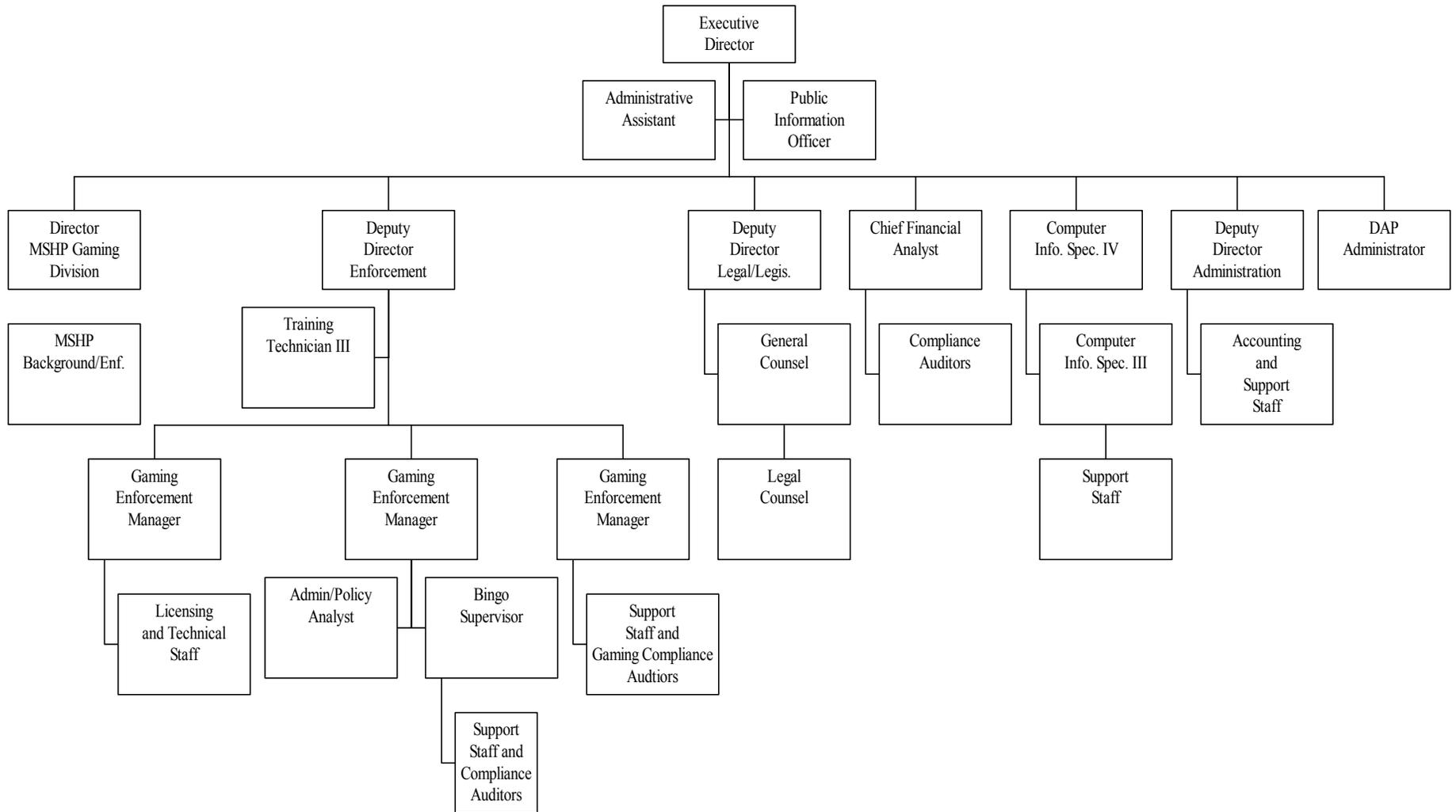
	<u>Term Expires</u>
Robert Smith	April 2002**
Lynne Nikolaisen	April 2002**
Muriel Battle	April 2002**
J. Joe Adorjan	April 2003

* At June 30, 2002 there were only four members of the Missouri Gaming Commission and none of these members had been appointed Chairman of the Commission.

**Members serve until replaced or reappointed, regardless of term date.

At June 30, 2002, the Missouri Gaming Commission had 92 employees and 91 Missouri State Highway Patrol employees who are assigned to the commission and paid from the Gaming Commission Fund. An organization chart follows.

MISSOURI GAMING COMMISSION
 ORGANIZATION CHART
 JUNE 30, 2002



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